annual report 1974

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I.T.L. INDUSTRIES LTD.

Cancorp
eliminate the points in ITL

PALM-N-TURN® SAFETY CAPS AND VIALS
RETRO REFLECTIVE HIGHWAY AND FARM SAFETY PRODUCTS
INJECTION AND COMPRESSION MOLDS
STANDARD MOLD ACCESSORIES
STANDARD DIE SETS AND ACCESSORIES
CUSTOM MOLD BASES

I.T.L. Industries Limited

DIRECTORS

C.A. BELL, Q.C.
WALTER A. HADDEN
FIRMAN H. HASS
PETER HEDGEWICK
GRAEME G. KIRKLAND
C. W. LEONARDI
DONALD C. SUHR

OFFICERS

PETER HEDGEWICK
Chairman

DONALD C. SUHR
President & Chief Executive Officer

DAVID M. VASS
Vice-President, Finance & Treasurer

CLARE WINTERBOTTOM
Vice-President

C. A. BELL, Q.C.
Secretary

AUDITORS

GLENDINNING, JARRETT & CO.
Toronto, Ontario

TRANSFER AGENT AND REGISTRAR

NATIONAL TRUST COMPANY LIMITED
Montreal, Toronto, Winnipeg,
Calgary, Vancouver

Message to the Shareholders

The planned market expansion of proprietary product lines, together with pricing policy adjustments based upon improved cost information and control, essentially overcame the combined adverse impact of material shortages, higher interest costs, U.S. exchange rates, and the abrupt decline in automotive parts volume and tooling programs in fiscal 1974.

Net sales declined to $24,497,000 compared to $25,024,800 in fiscal 1973 which included the operations of International Tools (U.K.) Limited which was divested at the end of the preceding fiscal year. Pre-tax profit was $1,118,000 compared to $1,009,800. Due to the application of Canadian deferred tax credits generated in prior years at a higher rate and losses in a United States subsidiary not treated on a deferred tax basis, net earnings were $395,000 compared to $521,500 in fiscal 1973.

INTERNATIONAL TOOLS

The contract Tooling Group sales and earnings were approximately comparable to the prior fiscal year after absorbing a sales and earnings reduction of $192,000 resulting from the currency loss on tooling contracts to the U.S. automotive industry, its principal customers. During the fiscal year, the industry uncertainty due to the U.S. gasoline shortage resulted in deferral and cancellation of many tooling contracts. This initiated an appraisal of the direction, volume and pricing levels that might be attained in the foreseeable future.

Based on anticipated further reductions in 1975, the following actions have been taken:

1. Operations were terminated at KNG Tool & Mould, a satellite plant at London, Ontario, and surplus equipment was sold without loss. The proceeds have now been applied to the current portion of the Company's long-term debt;

2. Operations of the main plant at Windsor were analyzed to reduce fixed costs and increase productivity per man hour. As a result, certain equipment for which there is no anticipated future requirement is being liquidated. The proceeds are being reinvested in numerical control machinery, quality control equipment, material handling facilities and building rearrangement to provide International Tools with the capability of increasing profitability on a markedly reduced volume without reducing total capability;

3. The internal staff has been adjusted to emphasize competitiveness in wider non-automotive markets;

4. Scientific Reproductions, a satellite plant at Kingsville, Ontario, producing electroform mold components is being relocated within the Windsor facility. The reduction in operating and fixed costs with resulting benefit in communications should benefit International Tools profit performance in fiscal 1975.

WHEATLEY MANUFACTURING

Wheatley Manufacturing operations realized a gain in sales for the third consecutive year and continued improvement in earnings. In line with the Company's policy to maintain Wheatley in a superior competitive position, the largest plate grinder with automated peripheral equipment in Canada was installed and its operation contributed to the Wheatley improved performance. Additional automated equipment has been authorized for installation in early fiscal 1975 to further strengthen Wheatley's competitive posture in the Canadian and U.S. market.

The addition of standard mold accessories to the Wheatley product line has received encouraging acceptance in the Canadian trade. Standard and custom mold bases produced with the assistance of facilities at the Tooling Group have also received wide spread customer interest. It is anticipated the standard mold components, having been established in the trade, will be a complementary and important segment of Wheatley Manufacturing operations growth program.

REFLEX

Reflex operations were reduced by the disposition of several molding contracts which were determined to be unsuitable for the existing facilities and unprofitable to the extent that further equipment investment could not be financially justified. In addition, a reduction in automotive parts volume in general adversely affected production levels. Through pricing adjustments of the remaining automotive contracts and successful efforts to increase PALM-N-TURN® pharmaceutical vial volume, Reflex was operated at a minor loss but provided a contribution to cash flow.

In view of the probable further decline in automotive volume the operations, staff and facilities have been oriented to serving a larger Canadian market in child resistant packaging and highway safety products.

ITL INDUSTRIES, INC.

In February 1974, the Company commissioned a feasibility study for the establishment of a modern manufacturing facility in the U.S. to meet the anticipated increased market demand for PALM-N-TURN® pharmaceutical vials and highway safety products. Based upon this study, and the mandated U.S. national requirement for the use of child resistant closures on prescriptions effective April 16, 1974, the Company purchased a new 51,000 square foot building in Newark, Ohio. This facility is now being equipped with the most modern production equipment and tooling yet designed for this purpose.

The Company's program to establish volume distribution for its PALM-N-TURN® products was not efficiently realized by the inadequate facilities at the Kenton, Ohio plant, and this operation experienced a loss in 1974. Ray-O-Lite Incorporated operated profitably but its scale of operation was also impeded by production limitation in Kenton. The entire operations in Kenton were terminated in December 1974.

The new plant will be fully operational in February 1975. The increased production area will permit the Company to eliminate the need for a manufacturing facility at Huntington Beach, California and these operations will be relocated at Newark. However, Ray-O-Lite Incorporated will continue in California as a sales office to service one of the Company's major markets for highway safety products.

A downturn in new truck sales during the latter part of the fiscal year reduced the demand for highway safety triangles and precipitated an erosion of selling price levels due to an over-stocked field condition.

Having eliminated all possible excess handling and manufacturing costs by establishing the Newark plant, the Company looks forward to substantial volumes and profits.

RESEARCH AND DEVELOPMENT

While the Company does not engage in pure research, its development activities have been formalized to provide firm projects based upon a newly organized product planning program. The market research, applications engineering and manufacturing engineering functions have been coordinated and provide regular program evaluation techniques within budgetary controls.

Proprietary product planning is essentially based on the Company's extensive holding of patents in child resistant packaging and retroreflective products since the Company has established both marketing and manufacturing strengths in these growth areas.

OUTLOOK

While the extent and length of the current downturn in the North American economy are still questionable, our planning is based upon a severely reduced demand for automotive tooling and component parts in fiscal 1975 and beyond. At the same time, we recognize that many non-automotive industries will require tooling to reduce costs and improve product performance. This trend will sustain and increase the market for standard dies and molds. We anticipate that consumer protection regulations will increase the demand for safety products. The Company is well positioned in this area as a result of the investments that have, and continue to be made, in development and production capabilities for safety packaging and highway safety products. We anticipate that fiscal 1975 will generally result in a balance between declining markets in some operations and growth markets in others. However, since the increase will be sustained in proprietary products, which generally carry a higher profit margin, we do not anticipate that the Company's earnings for the entire year will be adversely affected. However, the results of some quarters will not be comparable as a result of the changes in seasonality in the product lines.

Your Board of Directors will continuously review the return on investment of the Company's operations. If the future of any segment does not justify its continuance, our policy of divestment or termination will be applied to improve the Company's financial condition.

As the fiscal year proceeds, your Board of Directors will also continuously monitor the Company's financial requirements to improve its competitive position and to expand facilities in those areas that represent volume and profit growth opportunities. From the result of these reviews, payment of preferred share dividends will be considered, however, the unsettled economic conditions at this time do not encourage a favourable attitude.

We sincerely appreciate the support of our shareholders, customers and employees and wish to express our gratitude for the interest, cooperation and helpful suggestions which we have received.

For the Board of Directors,

Donald C. Suhr,
President & Chief Executive Officer.

February 1, 1975

Consolidated Statement of Earnings

For the year ended November 30, 1974

I.T.L. Industries Limited
and its subsidiaries

	1974	1973
Sales	$24,496,600	$25,024,793
Cost of sales including selling, general and administrative expenses	21,605,899	22,172,854
Earnings before the following deductions	2,890,701	2,851,939
Depreciation	951,538	1,019,085
Amortization of financing costs and patents	26,494	23,477
Interest on long-term debt	579,400	605,242
Other interest	214,926	194,267
	1,772,358	1,842,071
Earnings before income taxes	1,118,343	1,009,868
Income taxes (note 3)		
Current	180,600	421,620
Deferred	542,800	66,700
	723,400	488,320
Net earnings	$ 394,943	$ 521,548
Earnings per common shares	$ 0.15	$ 0.23

Consolidated Statement of Retained Earnings

For the year ended November 30, 1974

	1974	1973
Retained earnings (deficit), beginning of year	$ 43,683	$ (477,865)
Net earnings	394,943	521,548
Retained earnings, end of year	$ 438,626	$ 43,683

Consolidated Balance Sheet

November 30, 1974

I.T.L. Industries Limited
and its subsidiaries

ASSETS

	1974	1973
CURRENT ASSETS		
Cash	$ 84,511	$ 18,390
Accounts receivable	3,954,756	4,390,612
Inventories at lower of cost and net realizable value	3,401,984	3,778,610
Prepaid expenses and other assets	66,520	89,607
	7,507,771	8,277,219
FIXED ASSETS (note 2)	7,237,790	7,148,178
DEFERRED INCOME TAXES (note 3)		288,200
OTHER ASSETS		
Organization and financing costs, less amounts amortized	320,702	335,195
Patents, less amounts amortized	135,768	147,769
	456,470	482,964
EXCESS OF COST OF SHARES OF SUBSIDIARIES OVER NET ASSETS ACQUIRED, at cost	1,167,105	1,167,105
	$16,369,136	$17,363,666

Approved by the Board:

C. A. Bell, Director

D. C. Suhr, Director

LIABILITIES

	1974	1973
CURRENT LIABILITIES		
Bank advances	$	$ 1,162,035
Accounts payable and accrued liabilities	2,020,484	2,625,942
Current portion of long-term debt	1,218,217	548,928
Income taxes	210,739	175,350
	3,449,440	4,512,255
LONG-TERM DEBT (note 4)	6,697,436	7,278,694
	10,146,876	11,790,949
DEFERRED INCOME TAXES (note 3)	254,600	

SHAREHOLDERS' EQUITY

	1974	1973
SHARE CAPITAL (note 5)		
Authorized		
163,600 preference shares with a par value of $25 each, issuable in series		
3,050,251 common shares without par value		
Issued		
44,000 6½ % cumulative redeemable preference shares, Series A, redeemable at par	1,100,000	1,100,000
49,600 6½ % cumulative redeemable convertible preference shares, Series B, redeemable at par	1,240,000	1,316,250
1,602,007 common shares	2,996,000	2,919,750
	5,336,000	5,336,000
CONTRIBUTED SURPLUS	193,034	193,034
RETAINED EARNINGS	438,626	43,683
	5,967,660	5,572,717
	$16,369,136	$17,363,666

Consolidated Statement of Changes in Financial Position

For the year ended November 30, 1974

I.T.L. Industries Limited and its subsidiaries

	1974	1973
SOURCE OF FUNDS		
From operations		
Earnings	$ 394,943	$ 521,548
Less: Profit on disposal of fixed assets	91,665	
	303,278	521,548
Deductions not requiring a current outlay of funds		
Depreciation	951,538	1,019,085
Amortization	26,494	23,477
Income taxes – deferred	542,800	31,740
	1,824,110	1,595,850
Common shares issued on conversion of Series B preference shares (note 5)	76,250	
Proceeds of sale of fixed assets	361,049	
	2,261,409	1,595,850
APPLICATION OF FUNDS		
Additions to fixed assets	1,310,534	285,190
Reduction of long-term debt	581,258	181,282
Series B preference shares converted to common shares (note 5)	76,250	
	1,968,042	466,472
INCREASE IN WORKING CAPITAL	293,367	1,129,378
WORKING CAPITAL, BEGINNING OF YEAR	3,764,964	2,635,586
WORKING CAPITAL, END OF YEAR	$ 4,058,331	$ 3,764,964

Notes to the Consolidated Financial Statements

November 30, 1974

I.T.L. Industries Limited and its subsidiaries

1. Principles of consolidation

The statements consolidate the accounts of all subsidiary companies.

Assets acquired, liabilities incurred and results of operations during the current year of United States subsidiaries are included assuming $1 Canadian equal to $1 United States; if these were converted to the actual Canadian dollar equivalent, there would not be any material effect on the financial statements of the corporation.

Fixed assets acquired in prior years are included at historical values.

2. Fixed assets

The following is a summary of the fixed assets and related accumulated depreciation:

	Cost	Accumulated depreciation	Net 1974	Net 1973
Land	$ 238,690	$	$ 238,690	$ 168,690
Buildings	3,881,304	708,675	3,172,629	2,742,972
Machinery & equipment	9,643,716	6,041,622	3,602,094	4,027,686
Tools & dies	565,305	340,928	224,377	208,830
	$14,329,015	$7,091,225	$7,237,790	$7,148,178

Depreciation has been provided on a straight line basis principally at rates of 2½% on buildings, 7½% to 10% on machinery and equipment and 33⅓% on tools and dies.

3. Income taxes

Deferred income tax charges and credits:

	1974	1973
Deferred income tax charges expected to be realized in future years due to the application of losses against future years' taxable income	$ 17,400	$ 678,100
Deferred income tax credits, net of charges of $280,600 (1973 – $223,400), due to timing differences, principally in claims for capital cost allowances for tax purposes in excess of depreciation charges	(272,000)	(389,900)
	$(254,600)	$ 288,200

Realization of the deferred income tax charges is contingent upon the Company and certain subsidiaries earning sufficient profits in future years. In the opinion of the directors and management, it is virtually certain that future earnings of the Company and certain subsidiaries will be sufficient to realize these benefits.

Not included in the amount of deferred income tax charges is the tax effect of loss carry-forwards of approximately $1,600,000 in subsidiaries in the United States. These loss carry-forwards expire as follows: 1976 — $300,000, 1977 — $800,000, 1978 — $300,000, 1979 — $200,000.

Unrecorded deferred income tax credits amount to $266,000. These credits arose from capital cost allowances in excess of depreciation recorded prior to 1968.

4. Long-term debt

(secured by mortgages and floating charges on assets)

	1974	1973
6.20% Secured Sinking Fund Debentures, Series A, maturing June 15, 1984	$ 543,700	$ 635,000
6½% Secured Sinking Fund Debentures, Series B, maturing December 15, 1985	338,750	410,000
8½% Secured Sinking Fund Debentures, Series C, maturing June 15, 1988	1,481,300	1,665,000
8% Convertible Sinking Fund Debentures, 1969 Series, maturing October 1, 1988. Sinking Fund requirements commence in 1980. (For details of conversion see note 5).	3,000,000	3,000,000
8-7/16% loan, maturing July 15, 1980	1,486,875	1,504,000
10% First Mortgage maturing April 1, 1992	426,365	
Other long-term debt, maturing to 1979	638,663	613,622
	7,915,653	7,827,622
Less: Current portion	1,218,217	548,928
	$6,697,436	$7,278,694

The payments required in the next five years to meet long-term debt instalments and sinking fund provisions are:

1975	–	$1,218,217
1976	–	718,959
1977	–	527,955
1978	–	479,308
1979	–	480,930

5. Share capital

Common shares

There are Share Purchase Warrants outstanding entitling the holders thereof to purchase 15,000 Common Shares of the Company (subject to certain adjustments) up to June 1, 1978 at a price varying from $17 to $20 per share (subject to certain adjustments) according to the date the warrants are exercised.

Under the terms of the issue of the 8% Convertible Sinking Fund Debentures, 1969 Series, each $1,000 Debenture is convertible into 48 Common Shares on or before October 1, 1975, decreasing annually to 33 Common Shares on or before October 1, 1984.

159,000 Common Shares of the unissued Common Shares are reserved against conversions of the 1969 Series Debentures outstanding at November 30, 1974 and the exercise of the Share Purchase Warrants to purchase 15,000 Common Shares of the Company.

Preference Shares

The preference, rights, conditions, restrictions, limitations and prohibitions attached to the Series A, Preference Shares require that, commencing in 1966, the Company allocate on or before the first day of March in each year an amount of $25,000 to a maximum of $100,000 as a purchase fund for the purchase of such shares for cancellation. The balance of the purchase fund is $100,000 (1973 – $85,033).

The Series B, Preference Shares are redeemable at par by the Company at any time after June 1, 1978. Each Series B, Preference Share is convertible into 1.471 Common Shares on or before June 1, 1975, decreasing annually to 1.250 Common Shares on or before June 1, 1978.

During the year, 4,763 Common Shares were issued on conversion of 3,050 Series B, Preference Shares.

Dividend arrears on the cumulative Preference Shares amount to $518,544 at November 30, 1974.

6. Statutory information

(a) The aggregate direct remuneration to the directors and senior officers of the Company was $214,590 (1973 – $184,593).

(b) Sales by class of business were as follows:

	1974		1973	
Contract tools	$ 9,985,659	40.8%	$10,890,708	43.5%
Standard tools and dies	6,196,452	25.3%	5,219,770	20.9%
Contract plastic molded products – automotive	4,973,387	20.3%	6,079,389	24.3%
Proprietary plastic molded products	3,341,102	13.6%	2,834,926	11.3%
	$24,496,600	100.0%	$25,024,793	100.0%

(c) The exercise of conversion and option privileges of the Company's securities would not have had a dilutive effect on earnings per share.

7. Commitments

Subsequent to November 30, 1974, a subsidiary entered into a conditional sales agreement to acquire fixed assets at an approximate cost of $650,000, repayable with interest over five years.

8. Contingent liability

An action in the amount of $1,159,000 has been commenced in the United States District Court, Middle District of Louisiana, against the Company and a subsidiary for an alleged breach in a sales agreement.

In the opinion of the Company's United States legal counsel, the action is non-meritorious and, in a counter-claim, counsel believes the Company should be successful.

AUDITORS' REPORT

To the Shareholders,
I.T.L. Industries Limited.

We have examined the consolidated balance sheet of I.T.L. Industries Limited and its subsidiaries as at November 30, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Companies as at November 30, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

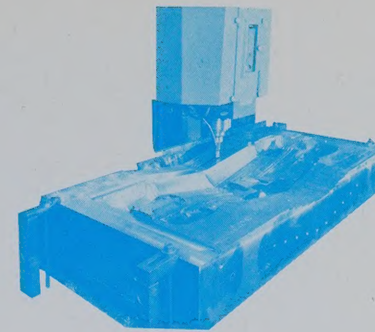
Toronto, Ontario,
December 20, 1974.

GLENDINNING, JARRETT & CO.
Chartered Accountants

I.T.L. OPERATIONS

INTERNATIONAL TOOLS
Sandwich P.O. Box 68,
Windsor, Ontario N9C 3Y8.

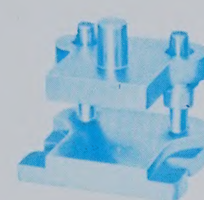
Manufacturers of injection and compression molds for the production of plastic and die cast parts by diversified industries.



REFLEX
P.O. Box 1180,
Amherstburg, Ontario N9V 2Z8.

Manufacturers of Palm-N-Turn® safety caps and vials.

Molds, assembles and decorates plastic components for the automotive and other industries.



WHEATLEY MANUFACTURING
Manufacturing Plants
2590 Ouellette Avenue,
Windsor, Ontario N9A 6L8.

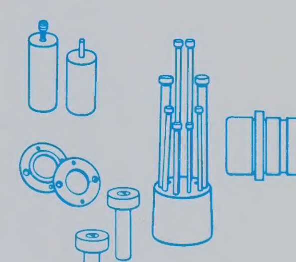
963 Martingrove Road,
Rexdale (Toronto), Ontario N9W 4V6.

Sales Offices and Warehouses
Wheatley Economy Die Sets, Incorporated
23751 Dequindre,
Hazel Park, Michigan 48030.

Wheatley Die Supply
760 Halpern Avenue,
Dorval, Montreal H9P 1G6.

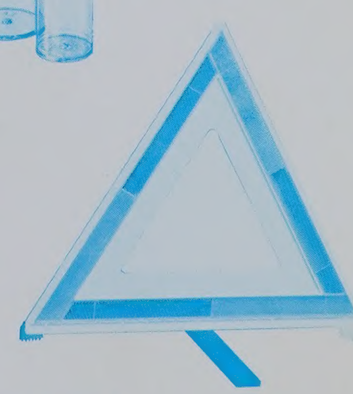
Manufacturers and distributors of standard die sets and accessories.

Manufacturers and distributors of custom mold bases and standard mold accessories.



I.T.L. INDUSTRIES, INC.
P.O. Box 877,
Newark, Ohio 43055.

Manufacturers of Palm-N-Turn® child-resistant packaging products and retro reflective highway and farm safety products.



Med-A-Safe Co.
P.O. Box 877,
Newark, Ohio 43055.

Marketing organization for Palm-N-Turn® safety caps and vials.

Ray-O-Lite, Incorporated
16102 Gothard Street,
Huntington Beach, California 92647.

Marketing organization for highway and farm safety products.

ITL